MEEA
Midwest Energy Efficiency Alliance

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Testimony on Behalf of the Midwest Energy Efficiency Alliance

Michigan House Energy Policy Committee

May 7, 2015

Chairman Aric Nesbitt and Members of the House Energy Policy Committee:

The Midwest Energy Efficiency Alliance (MEEA) seeks to submit this written testimony related to HB 4297.

MEEA is a non-profit membership organization based in Chicago, Illinois and founded in 2000. MEEA covers thirteen states in the Midwest and our members include investor-owned, cooperative, and municipal utilities; energy efficiency service and technology providers; manufacturers; state energy office representatives; and, academic, advocacy and research organizations. With more than 150 members, including 23 members in Michigan, we work to advance energy efficiency policies and facilitate energy efficiency program creation and delivery.

As an energy-intensive state, ensuring that Michigan's energy needs are met in a low-cost and reliable manner is critically important to the state's economy. It is because of these needs, that the Energy Optimization (EO) standard of P.A. 295 has had a profoundly positive impact on the state. The EO standard drives the delivery of cost-effective programs that allow Michigan residents and businesses to take advantage of the state's cheapest energy resource – energy efficiency.

At $17 per megawatt hour, energy efficiency is nearly four times cheaper than new natural gas and coal fired power plants and two times cheaper than wind generation, as seen in Figure 1.

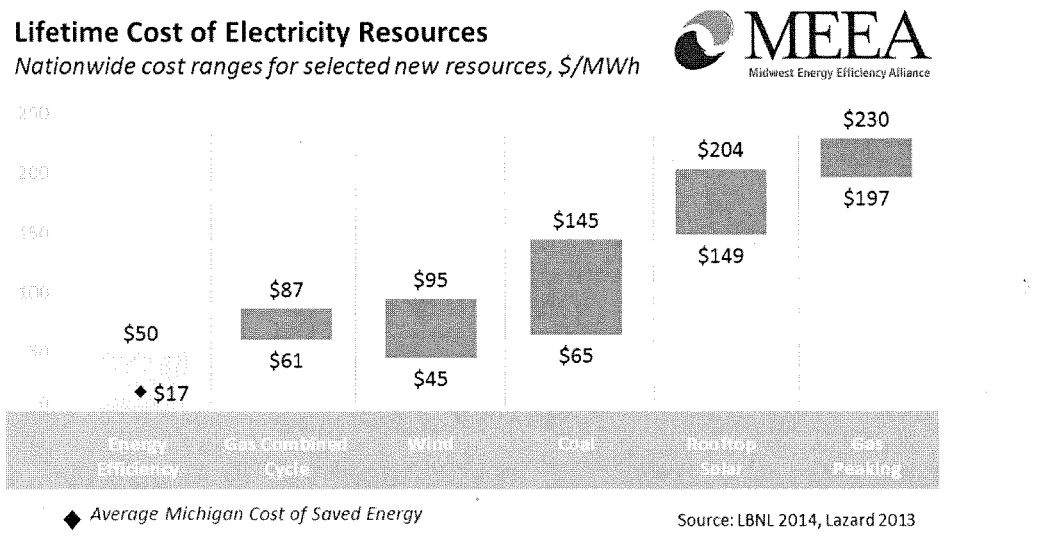

Figure 1: Lifetime Cost of Electricity Resources

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The ramp-up of ratepayer funded energy efficiency programs since the EO standard went into effect has been dramatic – annual electricity savings have tripled since 2009 (see Figure 2). With increased savings, come significant benefits for every customer class as all energy efficiency programs delivered by utilities in Michigan passed rigorous benefit-costs tests and were approved by the Michigan Public Service Commission.[1]

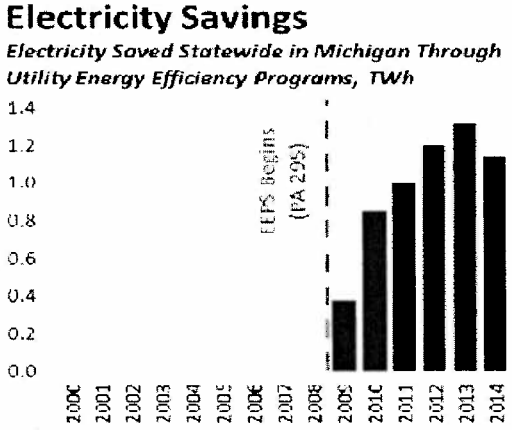

Figure 2: Electricity Savings in Michigan

In 2013, for every $1 spent on energy efficiency in Michigan, residents and businesses reaped $3.75 in benefits.[2] The calculated benefits include energy- and capacity-related avoided costs such as the cost of building new generation, transmission, and distribution facilities. Additional economic benefits are recognized by the Michigan Public Service Commission, but not reflected in the benefit-cost analysis, including: increased demand for efficient equipment and services from local businesses, increased spending within the economy due to utility bill savings from reduced energy consumption, and increased production from participating businesses.[3] All of these benefits are highly localized and remain in-state. The aforementioned return on investment for energy efficiency programs is derived from independent third-party evaluation of utility energy efficiency programs and is a result of a highly analytical and scrutinized process.

The economic reach of programs driven by the EO standard is deep. An entire industry has developed in Michigan around the EO standard and the associated annual savings targets – program implementers, evaluators, contractors, and manufacturers, among others. These savings targets create the predictability and certainty that companies in the energy efficiency industry need to continue to invest in Michigan and attract new investment. Moreover, utility energy efficiency programs resulting from the EO standard support Made in Michigan, a program that facilitates the use of state-manufactured products. Every dollar spent on final sales of manufactured products supports $1.40 in output from other economic sectors and Michigan's 575,000 manufacturing jobs.[4]

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[1] 2014 savings are planned savings as determined by utilities' filings with the Michigan Public Service Commission. The fact that the savings appear lower than 2013 reflects the fact that 2009 – 2013 numbers reflect actual savings and utilities have consistently exceeded their savings targets.

[2] Michigan Public Service Commission, 2014 Report on the Implementation of P.A. 295 Utility Energy Optimization Programs, November 26, 2014, http://michigan.gov/documents/mpsc/2014_eo_report_475141_7.pdf

[3] (MPSC, 2014)

[4] Consumers Energy, Residential Trade Ally Program: Made in Michigan, www.consumersenergytradeally.com/mim

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If the EO standard is repealed, the impact will be immediate and significant. In 2014, Indiana repealed its statewide energy efficiency standard. Since that change, total utility energy efficiency budgets decreased by 30% while total energy savings decreased by 47%. These reductions led to an overall lowering of the cost-effectiveness of the energy efficiency program delivery for customers.[5]

The stakes are high in Michigan as the EO standard has not only served as sound energy policy, but also as a proven economic development policy. Beyond the jobs within the energy efficiency industry, programs stemming from the EO standard have empowered businesses to invest in energy improvements that lower operating costs and improve their bottom line. Such investments would not be possible without a standard driving the availability of cost-effective programs. EO programs deliver both the expertise necessary to make those investments and incentives that result in reduced payback periods for private investments.

Energy efficiency resource standards (EERS) drive energy savings in the Midwest. Many of the states that have an EERS also require some form of long-term planning by their utilities. However, those states that rely solely on integrated resource planning (IRP) achieve significantly lower levels of energy savings, as seen in Figure 3.

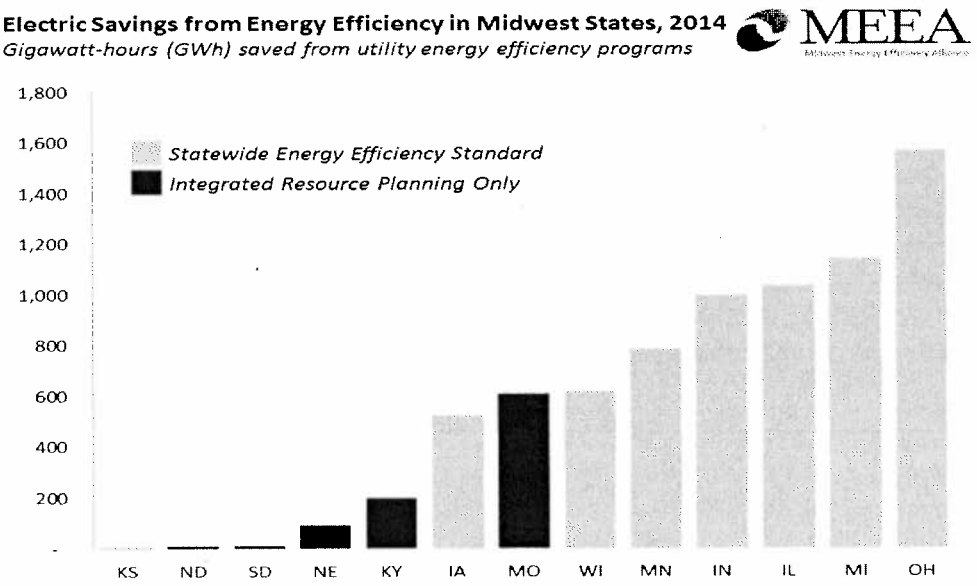

Figure 3: Midwest Comparison of Savings Driven by Energy Efficiency Resource Standards and Integrated Resource Planning.

*As of December 31, 2014, Indiana repealed its energy efficiency resource standard and Ohio's standard is "frozen." Both states are expecting a significant decrease in energy savings for 2015.

[5] Midwest Energy Efficiency Alliance, *Energy Efficiency in Indiana after Repealing the Statewide Standard,* April 24, 2015. http://www.mwalliance.org/sites/default/files/uploads/advokit/MEEA_2015_Advokit_Energy-Efficiency-Indiana-After-Repealing-Statewide-Standard_April2015.pdf.

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Pursuing an integrated resource planning process should not come at the expense of the current Energy Optimization standard. Michigan's EO standard can be incorporated into a utility's integrated resource planning process as a minimum amount of load reduction from demand-side management measures. It can be an input to the utility's modeling of supply and demand resources. Incorporating an existing EERS into an IRP process has been done successfully in a number of states. Within the Midwest, Minnesota incorporates their existing energy efficiency standard, which calls for electric savings of 1.5%, as an input to each utility's integrated resource plan. Through the IRP process, the Minnesota Public Utilities Commission then determines whether more energy efficiency can be achieved.[6]

Within a traditional integrated resource planning process efficiency savings are not guaranteed to occur, even though energy efficiency is the lowest cost resource. It is important to remember that integrated resource planning is a utility-drive process and energy efficiency is not valued in the same way supply side generation resources are by utilities. This skewed preference is reflected in resource modeling for an IRP.

States across the country have pursued numerous approaches to drive energy savings, but none substitute for an energy efficiency standard. Integrated resource planning, decoupling, and financial incentives may complement, but not replace an efficiency standard. In the Midwest, Wisconsin, Ohio and Minnesota enacted or are pending adoption of decoupling for electric utilities. Each of these states put this policy into effect while their energy efficiency resource standards were already in place. As noted above, these are the same states that have experienced substantial energy savings in comparison to those states without an EERS. An EERS – a proven effective public policy – is necessary to overcome market failures, such as incomplete information and monopoly power, to deliver the benefits of energy efficiency to consumers.

Michigan's Energy Optimization standard has produced continued economic benefits for customers throughout the state. It is a proven policy to delivery electric savings in a highly cost-effective manner. In order to meet at least 15% of Michigan's energy needs through energy efficiency by 2025[7], the EO standard should be recognized as an existing, proven foundation upon which to build. It provides a single, predictable framework for achieving both gas and electric savings. MEEA is supportive of the legislature's desire to explore policy and regulatory reform, but encourages you to build upon, not eliminate, the existing standard.

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[6] Minnesota Public Utilities Commission, Docket No. E-015/RP-13-53, In the Matter of Minnesota Power's 2013-2027 Integrated Resource Plan, Order Approving Resource Plan, Required Filings, and Setting Date for Next Resource Plan, Issue Date: November 12, 2013.

[7] Governor Rick Snyder, *A Special Message from Gov. Rick Snyder Ensuring Affordable, Reliable, and Environmentally Protective Energy for Michigan's Future*, March 13, 2015, http://www.michigan.gov/documents/150313_Energy_Message_FINAL_484033_7.pdf

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